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NEWS RELEASE

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PSC Approves Rate Increase for Grayson RECC

Commission cautions utility on financial management

FRANKFORT, Ky. (July 31, 2013) – The Kentucky Public Service Commission (PSC) has approved a request by Grayson Rural Electric Cooperative Corp. (Grayson RECC) for a rate increase that will allow the utility to maintain its financial stability.

In an order issued today, the PSC authorized Grayson RECC to raise rates to generate additional annual revenue of \$1.93 million. The allowed increase is about \$130,000 less than the amount requested by the utility.

The monthly service charge for residential and farm customers will increase to \$15, which is \$4.65 more than the current charge of \$10.35 per month. The cost of electricity will rise from 10.427 cents per kilowatt-hour to 10.910 cents per kilowatt-hour.

For a customer using 1,000 kilowatt-hours per month (a kilowatt-hour is the amount of electricity used by a 100-watt light bulb in 10 hours), the total monthly bill (excluding surcharges) initially will increase by \$9.48, to \$124.10. That is about 8.3 percent higher than the current monthly bill of \$114.62.

Grayson RECC serves approximately 15,400 customers in six counties in northeastern Kentucky. It is one of 16 cooperatives that own and purchase power from the East Kentucky Power Cooperative Inc. (EKPC).

Although agreeing that a rate increase is necessary, the PSC noted several issues with respect to Grayson RECC's financial management.

The timing of the rate increase request itself was problematic, the PSC said in its order. Grayson RECC has been aware since early 2010 that lower energy sales and rising costs were causing its financial position to deteriorate, the PSC noted.

For the last year and a half, Grayson RECC has been in technical default of its lending agreement with the Rural Utility Service (RUS), the federal agency that provides low-interest loans to rural electric cooperatives. But the utility waited until late last year to seek a rate adjustment.

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“The Commission is concerned that Grayson did not address this situation with more urgency,” and instead risked its financial condition and ability to provide adequate service by failing to act in a timely manner, the PSC said.

The PSC also noted that Grayson RECC’s wage and salary expenses continued to rise even as its finances deteriorated after the 2008 economic downturn. Other electric cooperatives facing similar problems either eliminated or reduced wage and salary increases, the PSC said.

Grayson RECC should improve its financial condition before considering any further wage or salary increases, the PSC said in its order.

Furthermore, Grayson RECC, when faced with financial problems, chose to reduce spending on operations rather than reduce the fees and expenses it paid to its board of directors, the PSC said. Those fees and expenses are higher than those paid by similar cooperatives, the PSC noted.

“The Commission is of the opinion that Grayson should evaluate its priorities when making decisions to reduce discretionary spending in order to minimize the potential for both negative financial impacts and negative operational impacts,” the PSC said in its order.

The order directs Grayson RECC “to be more proactive” in addressing financial issues in the future and to keep the PSC informed of “all communication with RUS” with respect to its financial situation so that the PSC can monitor the utility’s financial condition.

In addition to granting the rate increase, the PSC also allowed Grayson RECC to establish a voluntary prepaid metering program similar to that offered by several other electric cooperatives in Kentucky. The program allows customers to pay in advance for service and to replenish the account as needed.

Prepaid service customers will pay a \$10 monthly program administrative fee in addition to the monthly customer charge and cost of electricity, but are not required to pay a deposit and do not incur fees for late payments or reconnection if service is discontinued.

The PSC noted that Grayson RECC, in conjunction with EKPC, offers its customers demand-side management (DSM) programs designed to improve energy efficiency. In today’s order, the PSC said it encourages Grayson RECC and “all other electric energy providers to make a greater effort to offer cost-effective DSM and other energy efficiency programs.”

The PSC conducted an evidentiary hearing in the case on June 18, 2013. There were no intervenors in the case.

The PSC order and documents filed in the case are available on the PSC website, psc.ky.gov. The case number is 2012-00426.

PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.